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photo engravers & electrotypers ltd.

Annual Report 1970



leaders in the graphic arts since 1906

photo engravers & electrotypers ltd.

Directors and Officers

GORDON R. GILLIES, *President*

J. R. SHAW, *Vice-President*

JOHN S. DINNICK

H. B. KEENLEYSIDE, C.B.E.

DOUGLAS J. PEACHER

D. S. PORTER, C.A., *Secretary and Treasurer*

AUDITORS, *Clarkson, Gordon & Co.*

SOLICITORS, *Tory, Tory, DesLauriers & Binnington*

BANKER, *The Bank of Nova Scotia*

TRANSFER AGENT, *National Trust Company, Limited*

REGISTRAR, *Crown Trust Company*

HEAD OFFICE AND PLANT, *1150 Islington Avenue North, Rexdale, Ontario*

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Financial Highlights

EARNINGS	1970	*1969*
Sales	$8,228,668	*$7,347,776*
Depreciation	486,597	*501,444*
Income taxes	363,000	*367,600*
Net earnings	327,195	*323,736*
Net earnings per share	1.87	*1.85*
Dividends paid	161,000	*150,500*
Dividends per share	.92	*.86*
BALANCE SHEET		
Additions to capital assets	$1,521,969	*$1,163,008*
Shareholders' equity	3,699,008	*3,532,813*
Shareholders' equity—per share	21.14	*20.19*

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Directors' Report to the Shareholders

Your directors are pleased to submit the annual report of the Company for 1970, together with the financial statements and accompanying auditors' report.

SALES AND EARNINGS In 1970, sales amounted to $8,228,668 an increase of $880,892 or 12.0% over 1969. After meeting all charges, including a provision of $486,597 for depreciation of plant and equipment, and a provision of $363,000 for income taxes, there remained earnings of $327,195 or $1.87 per share compared with $323,736 or $1.85 per share for the previous year.

The 1970 earnings reflected the lack of buoyancy in the Canadian economy which reduced commercial requirements for rotogravure printing during the second half of the year. Also, our new printing presses did not operate at maximum rated capacity due to deficiencies in design and construction by the press manufacturer. A corrective programme is almost completed and we expect to obtain full productivity in early 1971.

DIVIDENDS Quarterly dividends of 23 cents per share were paid during 1970, making a total distribution to shareholders of 92 cents per share or $161,000 compared with a total distribution of 86 cents per share or $150,500 in 1969.

WORKING CAPITAL As a short term result of our continuing expansion programme, current liabilities exceeded current assets by $991,492 as at December 31, 1970. Further details are provided in the Statement of Source and Application of Funds and in the notes to the financial statements.

EARNINGS EMPLOYED IN THE BUSINESS As at December 31, 1970 earnings employed in the business amounted to $2,917,504 compared to $2,751,309 last year.

SHAREHOLDERS' EQUITY Total shareholders' equity amounted to $3,699,008 equal to $21.14 per share, compared with $3,532,813 or $20.19 per share a year ago.

PLANT EXPANSION Construction is now completed on the 100,000 square foot addition to our Etobicoke Plant, thus consolidating all departments of the Company in one location. This completes the third stage of our expansion programme and represents a total investment of approximately $5,700,000 over the last four years. Funds not available from operations have been provided by a $3,000,000 term bank loan which we have arranged to repay by 1974.

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We extend sincere appreciation to all those employees who, through their loyalty and efficiency throughout the year, contributed so much to the high standards of quality and service to our customers.

On behalf of the Board,

G. A. Gillies

President.

Toronto, Canada
January 26, 1971.

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ASSETS

	1970	*1969*
CURRENT:		
Cash	$ 125,828	$ *127,908*
Short term investments at cost which approximates market value		*74,813*
Accounts receivable	250,438	*373,748*
Portion of notes due within one year under Employees' Stock Purchase Agreements (note 2)	12,096	*14,391*
Inventories of work-in-process and materials at cost, less progress payments received	593,463	*595,163*
Prepaid expenses	6,186	*15,934*
TOTAL CURRENT ASSETS	988,011	*1,201,957*
CAPITAL—at cost:		
Land and roadways	135,910	*76,467*
Buildings	3,554,502	*1,962,090*
Machinery and equipment	8,378,560	*8,114,555*
	12,068,972	*10,153,112*
Less accumulated depreciation	4,633,952	*4,234,028*
	7,435,020	*5,919,084*
Building under construction		*480,564*
	7,435,020	*6,399,648*
OTHER:		
Notes due under Employees' Stock Purchase Agreements—non current (note 2)	60,480	*86,346*
	$8,483,511	*$7,687,951*

On behalf of the Board:

G. R. GILLIES, J. R. SHAW } *Directors*

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LIABILITIES

	1970	*1969*
CURRENT:		
Bank loan (note 1)	$ 540,000	*$ 530,000*
Accounts payable and accrued charges	718,332	*542,726*
Income and other taxes payable	221,171	*382,412*
Term bank loan due within one year (note 1)	500,000	*286,000*
	1,979,503	*1,741,138*
TERM BANK LOAN (note 1)	1,410,000	*1,144,000*
DEFERRED INCOME TAXES	1,395,000	*1,270,000*
TOTAL LIABILITIES	4,784,503	*4,155,138*
SHAREHOLDERS' EQUITY:		
Capital stock—		
Authorized: 250,000 shares, no par value		
Issued: 175,000 shares	781,504	*781,504*
Earnings employed in the business	2,917,504	*2,751,309*
TOTAL SHAREHOLDERS' EQUITY	3,699,008	*3,532,813*
	$8,483,511	*$7,687,951*

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photo engravers & electrotypers ltd.

Statement of Earnings and Earnings Employed in the Business

Year ended December 31, 1970

(with comparative figures for the year 1969)

	1970	*1969*
SALES	$8,228,668	*$7,347,776*
COST OF SALES and all expenses, except the items noted below	6,795,002	*6,025,641*
Abnormal start-up costs and expenses related to production difficulties with new press	84,021	
Provision for depreciation	486,597	*501,444*
Interest expense on term bank loan	138,310	*95,287*
Interest expense on current bank loan	35,106	*38,525*
Interest income	(563)	*(4,457)*
	7,538,473	*6,656,440*
EARNINGS BEFORE PROVISION FOR INCOME TAXES	690,195	*691,336*
Provision for income taxes	363,000	*367,600*
NET EARNINGS FOR YEAR*	327,195	*323,736*
Less dividends paid	161,000	*150,500*
BALANCE OF YEAR'S EARNINGS	166,195	*173,236*
EARNINGS EMPLOYED IN BUSINESS AT BEGINNING OF YEAR	2,751,309	*2,578,073*
EARNINGS EMPLOYED IN BUSINESS AT END OF YEAR	$2,917,504	*$2,751,309*
*EARNINGS PER SHARE	$1.87	*$1.85*

(See accompanying notes to financial statements)

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Statement of Source and Application of Funds

Year ended December 31, 1970

(with comparative figures for the year 1969)

	1970	*1969*
SOURCE OF FUNDS:		
Earnings for the year	$ 327,195	*$ 323,736*
Charges not involving a current outlay of funds—		
Depreciation	486,597	*501,444*
Deferred income taxes	125,000	*114,000*
FUNDS FROM OPERATIONS	938,792	*939,180*
Increase in term bank loan	266,000	*432,000*
Repayments of notes due under Employees' Stock Purchase Agreements	25,866	*14,391*
	1,230,658	*1,385,571*
APPLICATION OF FUNDS:		
Additions to capital assets	1,521,969	*1,163,008*
Dividends	161,000	*150,500*
	1,682,969	*1,313,508*
INCREASE (DECREASE) IN WORKING CAPITAL	(452,311)	*72,063*
WORKING CAPITAL (DEFICIENCY) BEGINNING OF YEAR	(539,181)	*(611,244)*
WORKING CAPITAL (DEFICIENCY) END OF YEAR	$ (991,492)	*$ (539,181)*

(See accompanying notes to financial statements)

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Notes to Financial Statements

December 31, 1970

1. FINANCING OF CAPITAL EXPENDITURES

Funds not available from operations to meet capital expenditures have been provided by means of:

(a) A term bank loan under which there is a maximum amount available of $3,000,000 carrying interest at 8% per annum repayable over a five year period which commenced in 1970. The Company has taken up a total of $2,410,000 under this loan with repayments presently being made at $500,000 per year.

(b) A loan on a revolving credit basis under which the bank has made available to the Company a maximum amount of $750,000 at the commercial bank prime rate of interest.

The Company has undertaken not to pledge or otherwise encumber any of its assets while any portion of the term bank loan is outstanding.

2. NOTES DUE UNDER EMPLOYEES' STOCK PURCHASE AGREEMENTS

These represent the amounts due under promissory notes made in 1967 by a director and senior management in favour of the Company in connection with the purchase of shares of the Company under its stock purchase plan. These promissory notes are payable in ten equal annual instalments.

3. PENSION PLANS

All the Company's employees are covered by the Canada Pension Plan and the majority by various union or Company administered retirement plans. The amount charged to income (including amounts paid to government pension plan) was $106,400 in 1970 and $101,900 in 1969 which amounts included amortization of prior service costs. The unfunded past service pension costs at December 31, 1970 were approximately $125,900 and these will be charged to operations over the next ten years.

4. REMUNERATION OF DIRECTORS AND OFFICERS

Remuneration paid to the Company's five directors totalled $92,500 in 1970 ($81,100 in 1969) while remuneration paid to the Company's three officers totalled $110,700 in 1970 ($96,800 in 1969). Two of the officers are also directors.

Auditors' Report

To the Shareholders of
PHOTO ENGRAVERS & ELECTROTYPERS LIMITED:

We have examined the balance sheet of Photo Engravers & Electrotypers Limited as at December 31, 1970 and the statements of earnings and earnings employed in the business and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1970 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
January 15, 1971.

CLARKSON, GORDON & CO.
Chartered Accountants

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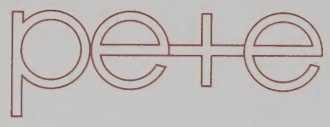
Ten Years' Review

Earnings

Year	Sales	Provision for Depreciation	Earnings Before Income Taxes	Net Earnings	Net Earnings Per Share	Dividends Per Share
1961	$5,710,498	$253,605	$455,619	$224,119	$1.37	$.80
1962	5,630,736	251,739	417,956	208,956	1.28	.80
1963	5,895,215	256,456	486,993	240,493	1.46	.80
1964	6,147,623	253,368	457,148	227,148	1.38	.80
1965	4,796,848	242,090	433,793	220,093	1.34	.80
1966	5,323,927	305,789	501,770	254,270	1.55	.80
1967	5,960,022	327,032	564,640	282,140	1.61	.80
1968	6,495,118	360,111	608,186	293,486	1.68	.80
1969	7,347,776	501,444	691,336	323,736	1.85	.86
1970	8,228,668	486,597	690,195	327,195	1.87	.92

Balance Sheet

Year	Working Capital (Deficiency)	Plant and Equipment at Cost	Plant and Equipment After Depreciation	Funded Long Term Debt	Term Bank Loan	Shareholders' Equity	Shareholders' Equity Per Share
1961	$1,335,917	$ 5,502,145	$3,026,119	$1,750,000		$2,180,052	$13.34
1962	1,357,477	5,560,655	2,837,513	1,500,000		2,264,759	13.82
1963	1,336,540	5,689,024	2,719,722	1,250,000		2,382,778	14.50
1964	922,983	5,329,854	2,735,802	1,000,000		2,496,185	15.19
1965	643,667	5,999,022	3,170,037	750,000		2,625,304	15.97
1966	764,131	6,535,191	3,403,065	500,000		2,920,041	17.77
1967	244,788	7,641,891	4,255,915	250,000	$ 255,000	3,206,091	18.32
1968	(611,244)	9,477,706	5,738,084		712,000	3,359,577	19.20
1969	(539,181)	10,633,676	6,399,648		1,144,000	3,532,813	20.19
1970	(991,492)	12,068,972	7,435,020		1,410,000	3,699,008	21.14



Artists

Photographers

Rotogravure Engravers

Rotogravure Printers

Bookbinders